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BEFORE THE ARIZONA CORPORATION COMMISSION

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2003 DEC 24 A 10: 51

AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR A HEARING TO
DETERMINE THE FAIR VALUE OF THE
UTILITY PROPERTY OF THE COMPANY
FOR RATEMAKING PURPOSES, TO FIX
A JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN, AND FOR APPROVAL
OF PURCHASED POWER CONTRACT.

Docket No. E-01345A-03-0437

Arizona Corporation Commission

DOCKETED

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**RUCO's RESPONSE TO MOTION TO REVISE THE PROCEDURAL SCHEDULE OR, IN
THE ALTERNATIVE, TO BIFURCATE RATE CASE TO EXCLUDE ISSUES
REGARDING PVEC ASSETS**

On December 19, 2003, the Arizona Competitive Power Alliance ("AZCPA") filed a Motion to Revise the Procedural Schedule or, in the Alternative, to Bifurcate Rate Case to Exclude Issues Regarding PVEC Assets ("Motion"). For the reasons set forth below, the Residential Utility Consumers Office ("RUCO") supports AZCPA's Motion.

The Motion

Arizona Public Service Company's ("APS") pending rate case asks the Arizona Corporation Commission ("Commission") to include in APS' rate base 5 generating units currently owned by its affiliate (the "PVEC assets") at their 2004 book value. The PVEC

1 assets have an aggregate capacity of 1700 MW. APS recently issued a Request for
2 Proposals ("RFP") to acquire at least 500 MW of power supply resources for 2007 and
3 beyond. AZCPA's Motion asks the Commission to require APS to modify its pending RFP
4 to solicit from the market a total of 2200 MW of power supply—the 500 MW in its current
5 RFP, plus the 1700 MW of the PWECC assets. The Motion proposes a four-month delay in
6 the procedural schedule of the rate case to permit the revised RFP process to conclude
7 prior to Commission Staff and intervenors filing testimony in the rate case. In the
8 alternative, AZCPA proposes that the issue of whether to include the PWECC assets in
9 APS' rate base be bifurcated from the rest of the rate case for later consideration.

10 **Analysis**

11 RUCO finds much merit in the premise on which the Motion is based. A core issue
12 in the rate case is whether to include the PWECC assets in APS' rate base. In order to
13 evaluate whether acquiring the PWECC assets at their book cost is the most prudent way
14 for APS to meet its capacity needs after 2006, the Commission must have some sense of
15 what market alternatives are available and at what prices. The Commission in its Track B
16 Order (Decision No. 65743) has expressed its preference that electric utilities solicit
17 market-based solutions to meet future demands. If, as a result of a market solicitation, the
18 PWECC assets prove to be the most prudent resource, the Commission should permit APS
19 to acquire those assets and include them in APS' rate base. If other assets are available
20 at lower costs, however, it would be beneficial for both customer and shareholders for APS
21 to acquire those assets instead. AZCPA correctly points out that, until the Commission
22 can examine the market's alternatives to the PWECC assets, it is premature to decide one
23 way or the other whether the PWECC assets should be incorporated into APS' rate base.

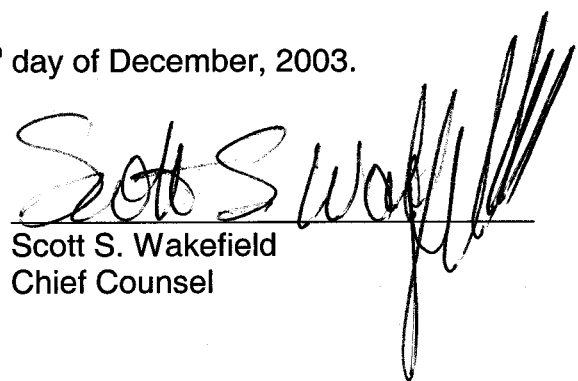
1 The Motion offers two alternative solutions. Both solutions envision that APS'
2 pending RFP be expanded to include the 1700 MW that would otherwise be met by the
3 PWECC assets. The first solution proposes that the rate case be suspended for four
4 months until the results of the "market test" become available. The second solution
5 suggests that the rate case be bifurcated, deciding all the remaining portions of the rate
6 case as currently scheduled, and resolving the question of PWECC assets in rate base after
7 the RFP results become available.

8 RUCO supports the first solution as the better alternative. Many of the issues
9 presented by the rate application flow from the Company's request to include the PWECC
10 assets in rate base. For example, the application includes expenses to operate the PWECC
11 assets, and calculates fuel, debt and capital costs based on APS owning the PWECC
12 assets. The resolution of these issues should track the resolution to the core question of
13 whether the PWECC assets are included in rate base. It is premature to attempt to resolve
14 those issues prior to the resolution of the core question.

15 **Conclusion**

16 RUCO supports the Motion's request to address the issue of the prudence of
17 acquiring the PWECC assets up front by requiring APS to expand the scope of its
18 outstanding RFP, and suspending the rate case procedural schedule until the results of the
19 RFP are available.

20 RESPECTFULLY SUBMITTED this 24th day of December, 2003.

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24 Scott S. Wakefield
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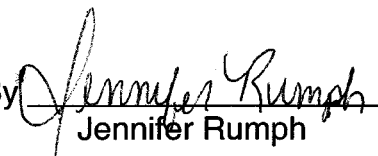
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